

CITY OF MALVERN
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2010

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditors' Report	5-6
Management's Discussion and Analysis	7-11
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 13-14
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	B 15-16
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	C 17
Notes to Financial Statements	18-25
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and	
Changes in Balances - Budget and Actual (Cash Basis) – All Governmental	
Funds and Proprietary Funds	27-28
Notes to Required Supplementary Information – Budgetary Reporting	29
Other Supplementary Information:	<u>Schedule</u>
Combining Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances - General Fund	1 31-32
Schedule of Indebtedness	2 33-34
Bond and Note Maturities	3 35
Schedule of Receipts by Source and Disbursements by Function –	
All Governmental Funds	4 36-37
Independent Auditors' Report on Internal Control over Financial Reporting	
and on Compliance and Other Matters Based on an Audit of Financial	
Statements Performed in Accordance with <i>Government Auditing Standards</i>	39-40
Schedule of Findings	41-44

City of Malvern

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
Dwain Pelzer	Mayor	January 2010
Gary Perkins	Council Member	January 2010
Doug Shere	Council Member	January 2010
Susan Dunmire	Council Member	January 2010
Shane Sayers	Council Member	January 2010
Toni Michel	Council Member	January 2012
Shari Mueller	City Clerk	Indefinite
T. J. Pattermann	Attorney	Indefinite
(After January 2010)		
Toni Michel	Mayor	January 2012
Spencer Terry	Council Member	January 2014
Doug Shere	Council Member	January 2014
Susan Dunmire	Council Member	January 2012
Shane Sayers	Council Member	January 2012
Lantz Powels	Council Member	January 2012
Shari Mueller	City Clerk	Indefinite
T. J. Pattermann	Attorney	Indefinite

City of Malvern



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

November 9, 2010

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Malvern, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Malvern's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of the City of Malvern as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued...

November 9, 2010
Independent Auditors' Report
City of Malvern

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2010 on our consideration of the City of Malvern's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Malvern's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2009 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schroer & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Malvern provides this Management's Discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 16%, or approximately \$170,000, from fiscal 2009 to fiscal 2010. Operating grants decreased approximately \$39,000 and capital grants decreased approximately \$100,000.

Disbursements decreased 9%, or approximately \$82,000, in fiscal 2010 from fiscal 2009. Capital projects decreased by approximately \$46,000.

The City's total cash basis net assets decreased by 24%, or \$38,773, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities decreased \$11,850, and business type activities decreased by \$26,923.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "is the City as a whole better off or worse off as a result of the year's activities." The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- ❖ Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- ❖ Business Type Activities include the sanitary sewer system. This activity is financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basis services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt-Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operation and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$26 thousand to \$14 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)			
	Year Ended June 30,		
	2010	2009	
Receipts:			
Program receipts:			
Charges for service	\$ 108	\$ 106	
Operating grants, contributions and restricted interest	311	350	
Capital grants, contributions and restricted interest.	1	100	
General receipts:			
Property tax	375	355	
Local option sales tax	67	71	
Grants and contributions not restricted to specific purpose	1	1	
Unrestricted interest on investments	-	1	
Bond and note proceeds	-	50	
	<u>863</u>	<u>1,034</u>	
Disbursements and other financing uses:			
Public safety	62	63	
Public works	251	262	
Culture and recreation	162	194	
Community and economic development	1	2	
General Government	101	90	
Debt service	114	116	
Capital projects	184	230	
	<u>875</u>	<u>957</u>	
Net change in cash basis net assets	(12)	77	
Cash basis net assets beginning of year	<u>26</u>	<u>(51)</u>	
Cash basis net assets end of year	\$ <u>14</u>	\$ <u>26</u>	

The City's total receipts for governmental activities decreased by 17%, or \$171,000. The total cost of all programs and services decreased by approximately 9%, or \$82,000. The decrease in receipts was primarily due to decreases in operating and capital grants.

The cost of all governmental activities this year was \$875 thousand compared to \$957 thousand last year. The City spent fewer monies on housing projects.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2010	2009
Operating receipts		
Charges for service:		
Water	\$ 132	\$ 121
Sewer	109	100
General receipts:		
Miscellaneous	3	4
Total receipts	<u>244</u>	<u>225</u>
Disbursements:		
Water	140	109
Sewer	131	142
	<u>271</u>	<u>251</u>
Net change in cash basis net assets	(27)	(26)
Cash basis net assets beginning of year	<u>137</u>	<u>163</u>
Cash basis net assets end of year	\$ <u>110</u>	\$ <u>137</u>

Total business type activities receipts for the fiscal year were \$244 thousand compared to \$225 thousand last year. The cash balance decreased by \$27 thousand.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Malvern completed the year, its governmental funds reported a combined fund balance of \$13,847, a decrease of \$11,850 from last year's total of \$25,697. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- ❖ The General Fund cash balance increased \$37,113 from the prior year of \$(113,542) to (\$76,429) due to an interfund transfer from Local Option Sales Tax Fund.
- ❖ The Road Use Tax Fund decreased \$12,624, Employee Benefits Fund decreased \$3,028, and Local Option Sales Tax Fund increased \$916. The Housing Fund increased \$16,654 due to costs from last year being reimbursed. The Urban Renewal Tax Increment fund did not change.
- ❖ The Debt Service Fund cash balance increased by \$15,417 to \$13,147 during the fiscal year.
- ❖ The Capital Projects Fund decreased \$66,298 to \$(23,266) due to FEMA grant receipts that were disbursed in the current fiscal year.
- ❖ The Sewer Fund cash balance decreased by \$21,504 to \$(6,644), due to the cost of operations and debt service.
- ❖ The Water Fund cash balance decreased by \$5,419 to \$116,590 during the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the capital projects budget was exceeded by \$2,271 due to completion of housing projects.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$1,192,705 in bonds and other long-term debt, compared to approximately \$1,307,410 last year as shown below:

Outstanding Debt at Year End (Expressed in Thousands)			
		Year Ended June 30,	
		2010	2009
General obligation notes	\$	603	\$ 684
Revenue notes		590	623
	\$	1,193	\$ 1,307

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt was \$603,000 at fiscal year end, which is significantly below the City's constitutional debt limit of \$2 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Malvern's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees that will be charged for various City activities. The City decreased the tax rates approximately .056350 from the previous year.

These indicators were taken into account when adopting the budget for fiscal year 2011. The debt service levy was increased from 15.93252 in 2010 to 15.87617 in 2011, for a difference of .056350. This was decreased due to the new bonding for the street sweeper/swimming pool project in the prior year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Shari Mueller, City Clerk, 107 E. 4th Street, Malvern, Iowa.

City of Malvern
Basic Financial Statements

City of Malvern
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2010

	Disbursements	Charges for Service	Program Receipts Operating Grants Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 61,604	1,112	-	-
Public works	251,488	74,270	146,190	-
Culture and recreation	161,670	31,704	18,045	-
Community and economic development	649	-	133,725	-
General government	100,918	1,015	6,176	-
Debt service	114,350	-	7,076	-
Capital projects	184,301	-	-	702
Total governmental activities	874,980	108,101	311,212	702
Business type activities:				
Water	140,255	131,652	-	-
Sewer	131,100	109,362	-	-
Total business type activities	271,355	241,014	-	-
Total	\$ 1,146,335	349,115	311,212	702
General Receipts:				
Property tax levied for:				
General purposes				
Employee benefits				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets:				
Restricted:				
Expendable:				
Streets				
Employee benefits				
Urban renewal purposes				
Property tax relief				
Debt service				
Unrestricted				
Total cash basis net assets				

See notes to financial statements

Net (Disbursement) Receipts and Changes in
Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(60,492)	-	(60,492)
(31,028)	-	(31,028)
(111,921)	-	(111,921)
133,076	-	133,076
(93,727)	-	(93,727)
(107,274)	-	(107,274)
(183,599)	-	(183,599)
(454,965)	-	(454,965)
-	(8,603)	(8,603)
-	(21,738)	(21,738)
-	(30,341)	(30,341)
(454,965)	(30,341)	(485,306)
\$ 241,579	-	241,579
23,686	-	23,686
109,691	-	109,691
66,916	-	66,916
765	-	765
248	468	716
230	2,950	3,180
443,115	3,418	446,533
(11,850)	(26,923)	(38,773)
25,697	136,869	162,566
\$ 13,847	109,946	123,793
\$ 78,599	-	78,599
29,216	-	29,216
16,039	-	16,039
9,657	-	9,657
13,147	30,311	43,458
(132,811)	79,635	(53,176)
\$ 13,847	109,946	123,793

City of Malvern
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2010

	General	Road Use Tax	Employee Benefits	Special Local Option Sales Tax
Receipts				
Property tax	\$ 230,590	-	22,709	-
Other city tax	10,989	-	977	66,916
Licenses and permits	1,689	-	-	-
Use of money and property	5,514	-	-	-
Intergovernmental	5,554	133,190	-	6,000
Charges for service	106,412	-	-	-
Special assessments	1,581	-	-	-
Miscellaneous	6,585	-	-	-
Total receipts	368,914	133,190	23,686	72,916
Disbursements				
Operating:				
Public safety	61,604	-	-	-
Public works	90,066	145,814	15,608	-
Culture and recreation	148,617	-	7,053	6,000
Community and economic development	649	-	-	-
General government	96,865	-	4,053	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	397,801	145,814	26,714	6,000
Excess (deficiency) of receipts over (under) disbursements	(28,887)	(12,624)	(3,028)	66,916
Other financing sources (uses):				
Operating transfers in	66,000	-	-	-
Operating transfers out	-	-	-	(66,000)
Total other financing sources (uses)	66,000	-	-	(66,000)
Net change in cash balances	37,113	(12,624)	(3,028)	916
Cash balances beginning of year	(113,542)	91,223	32,244	8,741
Cash balances end of year	\$ (76,429)	78,599	29,216	9,657
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	(76,429)	-	-	-
Special revenue funds	-	78,599	29,216	9,657
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ (76,429)	78,599	29,216	9,657

See notes to financial statements

Revenue				
Housing	Urban Renewal Tax Increment	Debt Service	Capital Projects	Total
-	-	105,157	-	358,456
-	-	4,534	-	83,416
-	-	-	-	1,689
-	-	-	-	5,514
133,725	-	11,000	702	290,171
-	-	-	-	106,412
-	-	7,076	-	8,657
-	-	2,000	230	8,815
133,725	-	129,767	932	863,130
-	-	-	-	61,604
-	-	-	-	251,488
-	-	-	-	161,670
-	-	-	-	649
-	-	-	-	100,918
-	-	114,350	-	114,350
117,071	-	-	67,230	184,301
117,071	-	114,350	67,230	874,980
16,654	-	15,417	(66,298)	(11,850)
-	-	-	-	66,000
-	-	-	-	(66,000)
-	-	-	-	-
16,654	-	15,417	(66,298)	(11,850)
(49,770)	16,039	(2,270)	43,032	25,697
(33,116)	16,039	13,147	(23,266)	13,847
-	-	13,147	-	13,147
-	-	-	-	(76,429)
(33,116)	16,039	-	-	100,395
-	-	-	(23,266)	(23,266)
(33,116)	16,039	13,147	(23,266)	13,847

City of Malvern
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2010

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 131,652	109,362	241,014
Operating disbursements:			
Business type activities	<u>140,255</u>	<u>77,853</u>	<u>218,108</u>
Excess (deficit) of operating receipts over operating disbursements	(8,603)	31,509	22,906
Non-operating receipts (disbursements):			
Interest on investments	234	234	468
Miscellaneous	2,950	-	2,950
Debt service	<u>-</u>	<u>(53,247)</u>	<u>(53,247)</u>
Total non-operating receipts (disbursements)	<u>3,184</u>	<u>(53,013)</u>	<u>(49,829)</u>
Net change in cash balances	(5,419)	(21,504)	(26,923)
Cash balances beginning of year	<u>122,009</u>	<u>14,860</u>	<u>136,869</u>
Cash balances end of year	\$ <u>116,590</u>	<u>(6,644)</u>	<u>109,946</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	30,311	30,311
Unreserved	<u>116,590</u>	<u>(36,955)</u>	<u>79,635</u>
	\$ <u>116,590</u>	<u>(6,644)</u>	<u>109,946</u>

See notes to financial statements

City of Malvern
Notes to Financial Statements
June 30, 2010

NOTE (1) Summary of Significant Accounting Policies

The City of Malvern is a political subdivision of the State of Iowa located in Mills County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Malvern has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mills County Assessor's Conference Board, Mills County Emergency Management Commission and Mills County E911 Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

City of Malvern
Notes to Financial Statements
June 30, 2010

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefit Fund is used to account for property taxes levied to pay employee benefits.

The Local Option Sales Tax Fund is used to account for receipts required from the tax authorized by referendum and used for property tax relief.

The Housing Fund is used to account for grants received for housing projects.

City of Malvern
Notes to Financial Statements
June 30, 2010

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Special Revenue (continued):

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the construction of capital facilities with the exception of those that are financed through enterprise funds.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Malvern maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

City of Malvern
Notes to Financial Statements
June 30, 2010

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the capital projects and business type activities functions.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2008, to compute the amounts which became liens on property on July 1, 2009. These taxes were due and payable in two installments on September 30, 2009 and March 31, 2010, at the Mills County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$123,793.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) No. 3, as amended by Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

City of Malvern
Notes to Financial Statements
June 30, 2010

NOTE (3) Notes Payable

Annual debt service requirements to maturity of general obligation notes are as follows:

Year Ended June 30,	General Obligation Notes		Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 90,995	28,631	34,000	17,700	124,995	46,331
2012	96,374	24,209	36,000	16,680	132,374	40,889
2013	100,874	19,527	37,000	15,600	137,874	35,127
2014	105,500	14,626	38,000	14,490	143,500	29,116
2015	88,259	9,499	39,000	13,350	127,259	22,849
2016-2020	120,703	6,741	212,000	48,570	332,703	55,311
2021-2024	-	-	194,000	14,790	194,000	14,790
Total	\$ 602,705	103,233	590,000	141,180	1,192,705	244,413

Interest costs paid during the year ended June 30, 2010 totaled \$51,339.

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$2,225,000 which was not exceeded during the year ended June 30, 2010.

Revenue Notes - The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$799,000 in sewer revenue notes issued in June 2004. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2024. The annual principal and interest payments on the notes were more than one and a half times net receipts. The total principal and interest remaining to be paid is \$731,180. For the current year, principal and interest paid and total customer net receipts were \$51,690 and \$31,509, respectively.

The resolutions providing for the issuance of the sewer revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the sewer enterprise activity, and the note holders hold a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

The City has complied with the provisions of the resolution. However, net receipts were insufficient to cover debt service payments.

City of Malvern
Notes to Financial Statements
June 30, 2010

NOTE (4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$9,642, \$7,785, and \$9,261, respectively, equal to the required contributions for each year.

NOTE (5) Compensated Absences

City employees accumulate vacation days for subsequent use or for payment at the end of the calendar year during which it was required to be taken. These accumulations are not recognized as disbursements by the City until used or paid. Employees are entitled to payment of accrued vacation upon termination, retirement, death, or disability. The City's approximate liability for earned vacation benefits payable to employees at June 30, 2010, primarily relating to the General Fund is \$3,782. This liability is computed on rates of pay effective as of June 30, 2010.

NOTE (6) Other Postemployment Benefits (OPEB)

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 3 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. The same premium is paid for retirees under age 65 for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premium for the City and plan members is \$527 for single coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, there were no plan members eligible for benefits.

City of Malvern
Notes to Financial Statements
June 30, 2010

NOTE (7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	\$ <u>66,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse resources.

NOTE (8) Commitments

Law Enforcement Contract

The City has contracted with Mills County, Iowa whereby the County provides law enforcement services within the City of Malvern through the office of the Sheriff of Mills County, Iowa through June 30, 2011 for an annual amount of \$17,509.

Administrative Services Contract

The City renewed its agreement with PeopleService, whereby the City engages PeopleService to manage, operate, and maintain the City's water and wastewater utility system. The Company in turn refunds to the City all cost savings on non-payroll operating expenses. The monthly contracted fee is \$7,676, plus \$1.96 per account bill, effective through June 30, 2011.

As required in this agreement, PeopleService computes, bills, collects and transmits to the City the revenues from water, sewer and landfill usage.

Rescue Services Contract

Malvern Volunteer Rescue, Inc. is a separate entity established to provide rescue services. In July 1989, the City signed an ambulance service contract with the Organization, which has been extended for successive one year terms. The Organization is required to provide 24 hour phone service, all insurance, maintenance, repairs and supplies for City owned rescue unit vehicles and trained personnel to respond to rescue calls. The City is required to pay the Organization \$1,104 a month for these services.

Community Services

The City has a 28E agreement with Mills County for the purpose of providing emergency communication services. The City's share of the support is \$10,048 for the year ending June 30, 2011.

City of Malvern
Notes to Financial Statements
June 30, 2010

NOTE (9) Lease Agreement

The City leases a copier under an operating lease agreement. Rental expense paid during the fiscal year ended June 30, 2010 totaled \$440.

Future minimum required lease payments on the copier are as follows:

<u>Year Ending June 30,</u>	
2011	\$ <u>440</u>

NOTE (10) Risk Management

The City of Malvern is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE (11) Deficit Fund Balances

The General Fund had a deficit balance of \$76,429 at June 30, 2010. The deficit will be eliminated with property tax collections, local option sales tax receipts and reduction in spending.

The Housing Fund had a deficit balance of \$33,116 at June 30, 2010. The deficit will be eliminated with grant reimbursements.

The Capital Projects Fund had a deficit balance of \$23,265 at June 30, 2010. The deficit will be eliminated with grant reimbursements.

The Sewer Fund had a deficit balance of \$6,644 at June 30, 2010. The deficit will be eliminated with charges for services.

Required Supplementary Information

City of Malvern
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts			
Property tax	\$ 358,456	-	358,456
Other city tax	83,416	-	83,416
Licenses and permits	1,689	-	1,689
Use of money and property	5,514	468	5,982
Intergovernmental	290,171	-	290,171
Charges for service	106,412	241,014	347,426
Special assessments	8,657	-	8,657
Miscellaneous	8,815	2,950	11,765
Total receipts	<u>863,130</u>	<u>244,432</u>	<u>1,107,562</u>
Disbursements			
Public safety	61,604	-	61,604
Public works	251,488	-	251,488
Culture and recreation	161,670	-	161,670
Community and economic development	649	-	649
General government	100,918	-	100,918
Debt service	114,350	-	114,350
Capital projects	184,301	-	184,301
Business type activities	-	271,355	271,355
Total disbursements	<u>874,980</u>	<u>271,355</u>	<u>1,146,335</u>
Excess (deficiency) of receipts over (under) disbursements	(11,850)	(26,923)	(38,773)
Balances beginning of year	<u>25,697</u>	<u>136,869</u>	<u>162,566</u>
Balances end of year	\$ <u>13,847</u>	<u>109,946</u>	<u>123,793</u>

See accompanying independent auditors' report

Budgeted Amounts		Budget to
Original	Final	Net
		Variance
360,762	360,762	(2,306)
85,723	85,723	(2,307)
3,625	3,625	(1,936)
5,400	5,400	582
171,562	312,884	(22,713)
346,420	346,420	1,006
-	-	8,657
-	2,367	9,398
973,492	1,117,181	(9,619)
80,122	80,122	18,518
256,347	263,200	11,712
169,964	172,374	10,704
2,150	2,150	1,501
91,904	106,204	5,286
120,074	120,074	5,724
-	182,030	(2,271)
247,690	254,890	(16,465)
968,251	1,181,044	34,709
5,241	(63,863)	(25,090)
169,928	169,928	(7,362)
175,169	106,065	(32,452)

City of Malvern
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board (GASB) Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$143,689 and budgeted disbursements by \$212,793. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the capital projects and business type activities functions.

Other Supplementary Information

City of Malvern
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Combining General Fund
As of and for the year ended June 30, 2010

	General	Liberty Memorial Sinking	Park Sinking
Receipts:			
Property tax	\$ 230,590	-	-
Other city tax	10,989	-	-
Licenses and fees	1,689	-	-
Use of money and property	5,413	101	-
Intergovernmental	839	-	-
Charges for services	106,412	-	-
Special assessments	1,581	-	-
Miscellaneous	5,595	-	-
Total receipts	<u>363,108</u>	<u>101</u>	<u>-</u>
Disbursements:			
Operating:			
Public safety	61,604	-	-
Public works	90,066	-	-
Culture and recreation	147,948	-	-
Community and economic development	649	-	-
General government	96,865	-	-
Total disbursements	<u>397,132</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(34,024)	101	-
Other financing sources (uses):			
Operating transfers in	<u>66,000</u>	<u>-</u>	<u>-</u>
Net change in cash balances	31,976	101	-
Cash balances beginning of year	<u>(149,608)</u>	<u>6,743</u>	<u>7,101</u>
Cash balances end of year	\$ <u>(117,632)</u>	<u>6,844</u>	<u>7,101</u>

See accompanying independent auditors' report

Library Memorial Trust	Library Building	Total
-	-	230,590
-	-	10,989
-	-	1,689
-	-	5,514
-	4,715	5,554
-	-	106,412
-	-	1,581
990	-	6,585
990	4,715	368,914
-	-	61,604
-	-	90,066
669	-	148,617
-	-	649
-	-	96,865
669	-	397,801
321	4,715	(28,887)
-	-	66,000
321	4,715	37,113
2,232	19,990	(113,542)
2,553	24,705	(76,429)

Schedule 2

City of Malvern
Schedule of Indebtedness
Year ended June 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Downtown sidewalk improvement	Feb 1, 2001	5.00 %	\$ 640,000
Liberty memorial improvement	Jul 1, 2004	4.50 %	100,000
Building	Jan 18, 2007	4.75 %	275,000
Library	Dec 19, 2008	4.50 %	50,000
Revenue note:			
Sewer	Jun 14, 2004	3.00 %	\$ 799,000

See accompanying independent auditors' report

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 359,410	-	44,705	314,705	17,449	-
50,000	-	10,000	40,000	2,250	-
230,000	-	24,000	206,000	10,925	-
45,000	-	3,000	42,000	2,025	-
<u>\$ 684,410</u>	<u>-</u>	<u>81,705</u>	<u>602,705</u>	<u>32,649</u>	<u>-</u>
<u>\$ 623,000</u>	<u>-</u>	<u>33,000</u>	<u>590,000</u>	<u>18,690</u>	<u>-</u>

City of Malvern
Note Maturities
June 30, 2010

General Obligation Notes

Ending June 30,	General Obligation Notes								
	Downtown Sidewalk Improvement		Liberty Memorial Building		Library		Essential Corporate Purpose		
	Issued Feb 1, 2001		Issued Jul 1, 2004		Issued Jan 18, 2007		Issued Dec 19, 2008		
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Total
2011	5.00 %	\$ 46,995	4.50 %	\$ 10,000	4.75%	\$ 25,000	4.50 %	\$ 9,000	\$ 90,995
2012	5.00 %	49,374	4.50 %	10,000	4.75%	27,000	4.50 %	10,000	96,374
2013	5.00 %	51,874	4.50 %	10,000	4.75%	28,000	4.50 %	11,000	100,874
2014	5.00 %	54,500	4.50 %	10,000	4.75%	29,000	4.50 %	12,000	105,500
2015	5.00 %	57,259	-	-	4.75%	31,000	-	-	88,259
2016	5.00 %	54,703	-	-	4.75%	32,000	-	-	86,703
2017	-	-	-	-	4.75%	34,000	-	-	34,000
Total		\$ 314,705		\$ 40,000		\$ 206,000		\$ 42,000	\$ 602,705

Revenue Note

Year Ending June 30,	Sewer	
	Issued Jun 14, 2004	
	Interest Rate	Amount
2011	3.00 %	\$ 34,000
2012	3.00 %	36,000
2013	3.00 %	37,000
2014	3.00 %	38,000
2015	3.00 %	39,000
2016	3.00 %	40,000
2017	3.00 %	41,000
2018	3.00 %	42,000
2019	3.00 %	44,000
2020	3.00 %	45,000
2021	3.00 %	46,000
2022	3.00 %	48,000
2023	3.00 %	49,000
2024	3.00 %	51,000
Total		\$ 590,000

See accompanying independent auditors' report

City of Malvern
 Schedule of Receipts By Source and Disbursements By Function -
 All Governmental Funds
 For the Last Six Years

	2010	2009
Receipts		
Property tax	\$ 358,456	339,395
Other city tax	83,416	86,445
Licenses and permits	1,689	2,360
Use of money and property	5,514	7,442
Intergovernmental	290,171	411,173
Charges for service	106,412	98,861
Special assessments	8,657	9,414
Miscellaneous	8,815	28,993
Total	\$ 863,130	984,083
Disbursements		
Operating:		
Public safety	\$ 61,604	63,070
Public works	251,488	262,079
Culture and recreation	161,670	194,152
Community and economic development	649	1,696
General government	100,918	89,982
Debt service	114,350	115,918
Capital projects	184,301	230,024
Total	\$ 874,980	956,921

See accompanying independent auditors' report

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
346,343	312,598	291,091	296,538
82,873	83,127	73,964	71,480
1,335	1,067	472	1,300
6,816	11,983	27,374	21,749
170,953	396,241	205,055	368,599
97,093	95,960	99,198	83,860
14,708	10,284	12,731	10,666
26,191	215,279	29,583	99,245
<u>746,312</u>	<u>1,126,539</u>	<u>739,468</u>	<u>953,437</u>
81,892	70,934	72,107	70,772
248,611	250,608	292,794	270,334
183,026	194,648	679,211	157,495
1,382	7,159	53,382	2,646
112,106	141,743	120,676	130,528
134,601	75,750	90,268	62,150
-	630,666	95,475	982,106
<u>761,618</u>	<u>1,371,508</u>	<u>1,403,913</u>	<u>1,676,031</u>

City of Malvern



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Malvern, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 9, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Malvern's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Malvern's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Malvern's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

City of Malvern
Independent Auditor's Report on
Internal Control and Compliance

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal controls such that there is a reasonable possibility a material misstatement of the City of Malvern's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-10 and I-B-10 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Malvern's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Malvern's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Malvern's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Malvern and other parties to whom the City of Malvern may report, including federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Malvern during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

SCHROER & ASSOCIATES, P.C.

Schroer & Associates, P.C.

November 9, 2010

City of Malvern
Schedule of Findings
Year Ended June 30, 2010

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-10 Segregation of Duties

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, posting of the cash receipts to the cash receipts journal, and reconciling are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. In addition, the Council should review monthly the Clerk's Report and actual to budget comparisons.

Response – We will implement additional controls.

Conclusion – Response accepted.

I-B-10 Separate Board

Comment – The park board has two checking accounts, Park Fund and Skate Park Fund, for donations to these particular functions. These transactions and the resulting balances are not recorded in the Clerk's records as required by the Code of Iowa Chapter 384.20.

Recommendation – Chapter 384.20 of the Code of Iowa States in part that, "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purposes." An accounting system for each board which will provide the necessary and required financial information should be implemented to comply with this code requirement. For better accountability, financial and budgetary control, the financial activity and balances of all city accounts should be reviewed at the transaction level and recorded in the Clerk's records.

Response – The City shall receive monthly reports and maintain documentation so that the financial activity of each board can be recorded in the Clerk's records.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Malvern
Schedule of Findings
Year Ended June 30, 2010

Part II: Other Findings Related to Statutory Reporting:

II-A-10 Certified Budget

Comment - Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the capital projects and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion - Response accepted.

II-B-10 Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-10 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-10 Business Transactions

No business transactions were noted between the City and City officials or employees.

II-E-10 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

City of Malvern
Schedule of Findings
Year Ended June 30, 2010

Part II: Other Findings Related to Statutory Reporting Continued:

II-F-10 Council Minutes

Comment – We noted 1 out of 60 transactions tested was not included in the listing for approval of claims in Council minutes, and 1 out of 2 transactions tested for travel reimbursement was not at the standard mileage rate for 2010 of \$.50. Although minutes for council proceedings were published, they were not always published within 15 days of the meeting, as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should monitor procedures to insure all claims are properly approved and at applicable rates. All minutes should be published timely.

Response – We will review our procedures. Claims added late for approval at the Council meeting were occasionally missed on the listing of claims in the minutes.

Conclusion – Response accepted

II-G-10 Enterprise Debt

Comment – Although the City has made the necessary transfers per the sewer bond resolution and has serviced the debt, net receipts were insufficient to service operations and debt service requirements, resulting in a negative unreserved fund balance.

Recommendation – The City should consider raising sewer rates in order to maintain the fund in sound financial condition.

Response – We will review this further.

Conclusion – Response accepted.

II-H-10 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

City of Malvern
Schedule of Findings
Year Ended June 30, 2010

Part II: Other Findings Related to Statutory Reporting Continued:

II-I-10 Excess Balances

Comment – The balance in the Special Revenue Fund-Employee Benefit Account at June 30, 2010, was in excess of the fund's disbursements during the year.

Recommendation – The City should consider the necessity of maintaining these substantial balances, and where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – We will review this further.

Conclusion – Response accepted.

II-J-10 Financial Condition

Comment –The General Fund had a deficit balance of \$76,429, the Capital Projects Fund had a deficit balance of \$23,265, the Housing Fund had a deficit balance of \$33,116, and the Sewer Fund had a deficit of \$6,644 at June 30, 2010.

Recommendation – The City should monitor the activity in these funds in order to eliminate the deficits. The City should control spending within budget limits and corresponding revenue sources.

Response – We will review this further and return these funds to a sound financial condition. The Housing Fund and Capital Projects Fund deficits will be eliminated with grant reimbursements. We have made the following plans for the General Fund:

- a.) Purchase capital assets needed with the levy of debt.
- b.) Require each department to be responsible for cutting budget expenditures where possible.

Conclusion – Response accepted.

II-K-10 Inactive Capital Project

Comment – The Capital Projects Fund-Liberty Memorial Fund is inactive.

Recommendation – The City should make the appropriate transfer to close.

Response – We will do this when funds are available from the General Fund.

Conclusion – Response accepted.